Alabama Medicaid Budget Presentation
Joint Alabama Legislative Budget Committee – January 15, 2009
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Before we begin, I want to first offer my sincere sympathy to you on the loss of your colleague and a great public servant Senator Pat Lindsey. Like all of you, he was a strong supporter of Medicaid, and he will be missed. As each of you continue his tradition of support of the Medicaid Agency, I want to express my appreciation for your commitment to the Agency and the people we serve.

Senator Lindsey had a passion for public service. I believe it is very important for those of us that have a passion for public service to get others involved at a very early age. The future of the Medicaid Agency and all other state functions rely on our young people becoming familiar with state government and then working in state government.

This is a noble goal.

There is a trend today where young people do not look at state government service as a career. We need to encourage more of our best and brightest young adults to consider working on behalf of this state. Because of this belief, the Medicaid Agency has forged relationships with several higher education institutions to develop internships for their students. These include opportunities for social work students from the University of Alabama in Tuscaloosa, for Auburn University and Samford University pharmacy students and for several students from Alabama State University.

This past fall, we had two students from the Alabama State University Social Work Department who worked with our Beneficiary Services Division to assist eligibility staff in working with applicants and recipients.

This week, we had one student from the ASU Social Work Department return to continue work with Beneficiary Services. We also have four students from the ASU School of

Business who will be assigned to work in areas related to their majors. These are all students who are graduating in May of this year and we hope they will consider using their skills to benefit the citizens of this state.

As you know, I use this presentation each year as an opportunity to invite students to see how government works. In that light, today it is my pleasure to share the podium with two young women who represent a future generation of Alabama leaders. I have asked them to accompany me for today's presentation because I believe that it is never too early to teach our young people how our government functions and how citizens can get involved to work for the good of our communities, our state and our nation.

At this time, I want to introduce Ashanti Williams who is a 6th grader at Seth Johnson Elementary School, and Amy Rawlinson is a 9th grader at Prattville High School.

Ashanti is active in the choir and other activities. She is a member of Zeta Phi Beta Sorority Youth Auxiliary which helps its members grow culturally, socially, and educationally. Now in her second year of this program, Ashanti recently was recognized for her community service and academics while participating in this program and is listed among Who's Who. Ashanti plans to be a teacher or a doctor.

Amy is a Level 8 gymnast, and practices in the gym 5 days a week while maintaining straight A's as an Honor Student. Amy competed in the National Science Olympiad Tournament last summer at George Washington University in Washington DC in astronomy, meteorology, and science crime busters. She has already received a scholarship from George Washington University and a letter of interest from Columbia University Engineering Department. Amy is active in the YMCA Leader's Club and spends her spare time involved in community volunteer activities. She loves to debate and is passionate about social justice. Amy wants to be a biologist or industrial engineer when she graduates from college.

I have an article here, and I'll just read the title of it:
Alabama Medicaid program on shaky ground(s).

In what year do you suppose this article was written?

If you said 1969, the year the Alabama Medicaid program began, you would be correct. The truth is that it could have been written in almost any year during the past 40 years, because financial dilemmas have dogged the Alabama Medicaid program from its inception.

If you look at news clippings from throughout Medicaid's history, there are several recurring themes:

- The number of people on Medicaid is increasing,
- The demand for health care services is increasing,
- The cost of health care is increasing,
- Federal funds are shrinking,
- Government mandates are increasing, and
- The willingness of the federal government to allow states the flexibility to manage their programs effectively continues to be severely limited.

With the Great Society impetus of the middle 1960s, the Johnson administration launched a mass of programs to care for the poor and disadvantaged. Government began to exert a greater influence in everyone's life as the public sector attempted to meet needs ranging from food -- to housing -- to transportation -- to health care. Then, as now, social programs cost considerably more to implement and maintain than there were tax dollars available to invest in them.

In 1969, Governor Albert Brewer was only asking for 35 million dollars to match federal funds to operate the program for <u>two</u> years. Last year, the Governor and the Legislature appropriated <u>622 </u>million dollars just for Fiscal Year 2009.

Having a gap between what we need and want -- and what we have is not a new issue. It is not even an Alabama issue. Many states are being forced to cut back on Medicaid-funded services as they wrestle with the deteriorating economy. According to the Kaiser Foundation report issued earlier this month, many states are suspending or dropping non-mandated services.

Let's look at what the Federal Government regards as "non-mandated" or to put it another way, items we are <u>not</u> required to pay for….:

These include:

1. Prescription drugs
2. Physical therapy
3. Prosthetic and orthotic devices
4. Respiratory care for ventilator dependent individuals
5. Organ Transplants
6. Diagnostic, preventive and corrective dental procedures
7. *End Stage Renal Disease, except for children and Medicare eligibles
8. *Eyeglasses except for children and Medicare eligibles
9. *Home and Community Based services except for children and Medicare eligibles
10. *Hospice services, except for Medicare and institutionalized individuals
11. *Preventive, diagnostic, therapeutic, rehabilitative, or palliative clinic services that are furnished by a facility that is not part of a hospital except for children and Medicare eligibles
12. Critical Access Hospital (CAH) services
13. Dentures
14. *Diagnostic, screening, preventive, and rehabilitative services except for children and Medicare eligibles
15. *ICF-MR facility services except for children and Medicare eligibles
16. *Inpatient hospital services, nursing facility services, or intermediate care facility services <u>for individuals age 65 or older in institutions for mental disease</u> except for Medicare eligibles

17. Inpatient psychiatric services under the age of 21
18. Medical or other remedial care provided by licensed practitioners, other than physicians, within the scope of practice defined by State Law -- such as chiropractic and podiatric services
19. Occupational therapy
20. Personal care services
21. *Primary care case management services except for children and Medicare eligibles
22. Private duty nursing services for adults
23. Services for individuals with speech, hearing and language disorders
24. Skilled nursing facilities for individuals under the age of 21
25. *Targeted Case Management services, and
26. *Transportation

It is quite a list.

How can we discount the value of medications in keeping people out of the hospital or doctor's office, let alone medications' impact on an individual's quality of life? This is just one of the many examples where federal rules, written in the 1960s, have not been changed and where states do not have the flexibility to spend its resources in the way that makes the most sense.

Federal rules also block our ability to impose any real cost-sharing or consumer disincentives for over utilizing the health care system short of restrictions for significant fraud and abuse. In the private sector, and with state employees, our high deductible for a brand-name drug prompts us to ask for a generic instead, or a deductible and co-pay may make you decide to wait to see your doctor next week instead of going to the hospital emergency room over the weekend. Medicaid co-payments for drugs range from 50 cents to 3 dollars per prescription. Children under 18 and pregnant women are exempted from these copay requirements as required by federal law!

When I came before this body a year ago, you may recall that I talked about the need to build a firm foundation for our program. Because the health care system is constantly

changing, there are ongoing opportunities for our Agency to be innovative in how we manage our program and in the ways we seek to improve the quality of life for those we serve.

Your leadership and support during the past year have helped us move closer to that goal by supporting our efforts to run a "bare bones" program on behalf of the poor, the elderly and disabled citizens of Alabama. In addition, you have allowed us the opportunity to be innovative and creative in our search to maximize every tax dollar made available to us. We deeply appreciate your commitment to the most vulnerable citizens of our state.

You also have supported the economy of Alabama by providing funds that help pay for the operation of the Medicaid program, which is a vital part of the health care system of this state. Our state's healthcare providers – hospitals, nursing homes, doctors' offices, lab and x-ray facilities, pharmacies and much more -- collectively employ more people than any other business or industry in the state and sustain our economic well-being as well as our physical health. There are a number of studies that suggest that Medicaid dollars finance the health and well-being of cities and communities statewide, even for those not eligible for or receiving healthcare services financed by Medicaid.

<u>Here are the facts:</u>

In Fiscal Year 2007, Alabama Medicaid paid 4.4 Billion dollars to healthcare providers who represent thousands of jobs – nurses, office staff, physicians and many, many other dedicated healthcare professionals.

Medicaid pays for 56 percent of the patient days at The Children's Hospital of Alabama in Birmingham and 63 percent of the patient days at USA Children's and Women's Hospital in Mobile.

Consider these numbers, which are in your handout:

- In Montgomery County, where 45 percent of all children are covered by Medicaid, a total of 445.5 million dollars was paid to health care providers in Fiscal Year 2007.

- Senator Bedford, in that same time period, Alabama Medicaid paid $230.3 million dollars for health care provided to the eligible constituents in your 7-county district.

- While Madison County is a more affluent county, there are still 40,000 people who qualified for Medicaid in the 2007 fiscal year. We paid approximately 180 million dollars for their care.

- Even in rural Clay County, Medicaid makes a difference! We paid $20 million dollars for health care provided to qualified recipients in Clay County in the 2007 fiscal year.

Without Medicaid revenue, critical components of Alabama's health care infrastructure would not be available even for those of us blessed with very good health insurance or those that are very wealthy.

A strong health care infrastructure benefits everyone, rich and poor, and puts millions of dollars into our economy. This impacts every constituent, in every legislative district.

The Alabama Medicaid Agency is very blessed to have dedicated, committed and passionate staff members that go the "extra mile" to ensure that the most vulnerable of our citizens have healthcare services available to them. This staff has continued to make significant improvements to the program and continues to manage the program in an efficient and effective manner. The progress we have made is a great testimony to their work. Evidence of their excellent work and the progress we have made over the past year include:

Efforts to improve health care access for the people of Alabama:

- 20%, or nearly 1 million Alabama citizens are eligible for some type of Medicaid coverage
- Nearly half of all births, or approximately 30,000 births each year, are paid for by Medicaid.
- 38% of Alabama's children depend on Medicaid for healthcare coverage.
- 12.8% of Alabama's elderly residents are Medicaid eligible.
- 71% of the nursing home residents in participating facilities are Medicaid eligible.
- More than 14,000 elderly and disabled individuals participate in one of six home and community-based waivers; and
- Medicaid pays for over 7 million prescriptions a year.

As the economy stumbles, it is reasonable to expect that these numbers may increase. Alabama has been fortunate with our economic development efforts and the growth of new jobs. We are seeing the downturn in the economy much later and not as deep as other states. However, our unemployment rate is increasing and that is the trend we are seeing throughout the country. Without a viable Medicaid program, working people who have lost jobs and health insurance have no safety net to rely on.

The Kaiser Commission on Medicaid and the Uninsured reports that cutting Medicaid spending during an economic downturn can worsen the economy. This is because Medicaid spending generates economic activity at the state level by supporting jobs and generating income and tax revenues within the health care sector and other sectors due to the multiplier effect. The Kaiser report also notes that Medicaid's economic impact is intensified because of federal matching funds. Reductions in state spending for Medicaid result in declines in federal dollars.

For every dollar cut from the state budget, the overall Medicaid program must cut $3.12. Since Alabama's matching rate is 67.98% for the 2009 Fiscal Year, we must cut $3.12 from our overall budget for every $1 reduction in General Fund revenue. This means if

we reduce our General Fund dollars by 10 percent or $62.2 million, we will have to cut our overall budget by $194.1 million.

We are continuing to invest our very scarce dollars in a system that promotes prevention and wellness and has a focus on coordinated care for those people with chronic illnesses. This not only improves the quality of life for our recipients but also reduces the costs of the program. Today, we have approximately 1,000 diabetic and asthmatic patients in a 9-county pilot program called Q4U. This pilot is designed to help these individuals live healthier lives and stay out of the hospital and emergency room. After a trial period to refine this effort, we hope to expand it to more counties and more individuals.

Because of this program, one of our diabetic recipients has significantly decreased her number of ER visits. She had, by her own admission, gone to the ER almost every week because of her diabetes. She now has cut down her visits to once in the month of November and no visits in the month of December. She is still working on managing her diabetes, but she is now in control of her disease and feels better and has a better quality of life. The second half of her story is that Medicaid dollars are saved.

The next recipient I want to tell you about was receiving no treatment for his asthma condition and was not seeing a doctor at all due to the fact that his doctor retired and he did not understand to go and get another one. If he needed any treatment, he went to the emergency room. Since he started under the Q4U program and received care coordination services, he now has a physician and sees him regularly for treatment for his asthma and high cholesterol. In addition, the patient's teeth were in poor condition and as part of the care coordination efforts, he is practicing good dental hygiene and completing the necessary dental work through the federally qualified health clinic where he receives his health care services.

These are clear examples of win-win -- the Medicaid program saves money but more importantly, the individual remains a contributing member of society with a significantly improved quality of life.

We are using technology, new medical knowledge and innovation to get the most for taxpayers' money.

The Alabama Medicaid Agency has a long record of efficient management and we do a very good job of correctly paying claims to medical providers for qualified recipients. We implemented a major update to our claims processing system last February that is processing claims even more efficiently. In addition, this new system will provide a higher level of information that we can use to better analyze and develop targeted cost savings.

Other important achievements include:

- Our Together for Quality Medicaid transformation initiative which is now being pilot tested in 11 counties, This effort, funded totally through a $7.6 million federal grant, is making it possible to provide more up-to-date and comprehensive information to health care providers by giving them better tools to provide care to their patients.

- As a result of this initiative, we have created an electronic health record and Clinical Support Tool for physicians, a Care Coordination system for patients with chronic illnesses, such as asthma or diabetes, and the ability to create data linkages with other state health and human service agencies, starting with the Department of Senior Services. All of these are not only underway, but Alabama is being recognized nationally for its progress in this area.

- In February, we will add e-prescribing to this effort, allowing doctors to securely prescribe drugs for their patients via the electronic health record system. At some point early in this legislative session, I would like to show you the capabilities of our electronic health record.

- We also have revamped our Patient 1st primary health care program to reimburse physicians who use this technology to monitor drug use and to use this data to follow their patients in a more coordinated and systematic way. This program, based on the medical home concept, has been a nationally recognized model of success.

- We have made significant progress toward modernizing our eligibility application and record system. The development of a new computer system will foster greater efficiency, reduce barriers and streamline the application process for recipients and caseworkers through a more customer-oriented, paperless system. Once we make the full transition to a paperless application process, we will be in a position to save money by eliminating file cabinets and storage space, in addition to making our eligibility workers more flexible and efficient.

- This summer, we added the ability to securely sign online eligibility applications electronically. This speeds up the process for the increasing number of individuals applying for Medicaid.

- In concert with these efforts, we recently opened our first customer service center to better serve recipients in Birmingham. Following an intensive review of our business processes and reviewing the eligibility processes in other states, we have consolidated our eligibility operations in the Birmingham area so that applicants can come to one place to get resource information, to present required citizenship and identity documents, and to apply online or in person. Located in the Palisades shopping center, it is our goal to better serve the citizens of Alabama who turn to Medicaid for healthcare coverage. We believe this consolidation of effort will maximize resources and decrease barriers for our recipients.

- We are now in the middle of a five city series of maternity town hall meetings to look at how we can revamp our Maternity Care program to help improve birth outcomes and infant mortality. As you know, Dr. Don Williamson announced that

> Alabama's infant mortality rate has gone up. The issues today are not those of past years when access to doctors, clinics and hospitals were the main focus. Today, substance abuse, lack of birth spacing and other issues create a difficult challenge. We are listening closely to the experts in maternal and infant health to come up with a plan that not only addresses this compelling issue, but also stays within our budget.

In keeping with our philosophy of making patient-centered decisions based on good medicine and quality care, we have implemented or are planning on implementing several policy changes to preserve an individual's access to medically-necessary drugs and services, while reducing costs to the Medicaid program.

These initiatives include:

A new reimbursement system for pharmacy services and prescription drugs

As you know, Medicaid has been in litigation with many prescription drug manufacturers and I am not at liberty to speak in too much detail concerning this ongoing litigation. We would like for you to simply know and appreciate the fact that the Agency has been studying and struggling to improve the reimbursement system ever since the suit was filed, and because of all of the hurdles associated with the lack of an alternative source of prices on a regular periodic basis for 60,000 NDC's and the requirements imposed by federal law, we are just now getting to the point where it is possible to consider changes in the reimbursement system in a manner that is manageable for us, fairly reimburses providers and complies with federal law.

New radiology management criteria and interventions. High-tech imaging has been recognized nationally as a service that is consuming more and more health care dollars – on average a national growth rate of 15 to 18 percent each year. The Agency will implement coverage policies and management strategies that will make a positive impact on this high-cost expenditure while enhancing quality of care. This initiative is expected

to save the General Fund an estimated one-half of a million dollars in Fiscal Year 2009. This program is similar to the one operated by Blue Cross Blue Shield of Alabama for state employees. Alabama Medicaid is working very closely with the physician community to implement this program.

Revisions to the criteria and payment methodology for Hemophilia blood products. In cooperation with our hemophilia health care community we have revised our payment methodology in addition to establishing a quality standard that all providers must meet in order to provide these services. We estimate this change is saving the General Fund $1.4 million dollars in Fiscal Year 2009.

Improving our Dispense as Written requirements for prescription drugs which will require providers to document medical necessity for expensive brand-name drugs when a generic equivalent is available. This change is expected save the General Fund an estimated one-half of a million dollars in this budget year.

Our own track record is proof that initiatives such as these work well.

Implementation of our Preferred Drug List, prior authorization requirements and other pharmacy initiatives demonstrate that using evidence-based national guidelines and best practices do not keep Medicaid recipients from getting the medicine they need nor does it increase costs in any other area of the program. In addition, Agency drug utilization reports show that we have an approximate 60 percent generic utilization, which demonstrates that our Preferred Drug List and brand limit programs are working.

As we look critically at the decisions we make and the projects we undertake, we try to answer two important questions:

1. Does this program change or expenditure support the patient centered/quality focused priority of the Agency?

2. Does it help transform the health care system into one that invests in better healthcare, prevention and care coordination?

In other words, better health care at a lower cost.

Every day in the state of Alabama, people make tough decisions about what they can and cannot afford. State government must do the same. Especially in these trying economic times, Medicaid must live within its means.

Virtually all of our budget goes to pay for health care services for the elderly, poor and disabled citizens of this state. Our administrative cost of about 3 percent of our total budget is among the nation's lowest. For every tax dollar spent, 97 cents goes into local economies to pay for doctor visits, hospital care, drugs, home health care, nursing care and more. A recent report by 1st Data found that Alabama Medicaid's administrative cost per recipient of 143 dollars is far below the US average of 244 dollars per recipient. There is another way to think about it, too. We could dismantle our entire staff and claims processing system, eliminate non-emergency transportation and still not save more than 3 percent of our entire budget, or approximately $145 million.

The decisions we make must be balanced by the needs of all of the people we serve including some of our state's most vulnerable citizens: the elderly, chronically ill, the disabled and children.

Being a partner with the federal government brings multiple mandates, changes in law, changes in regulations and a variety of oversight agencies.

Some of the issues we have dealt with over the last two years include recent federal mandates such as Citizenship and Identity requirements in order to become eligible, Tamper-Resistant Prescription Pad requirements, a new pharmacy reimbursement regulation, Graduate Medical Education regulation, units of government and cost regulation, rehabilitative services regulation, school-based services regulation, targeted

case management regulation, increased audit requirements for hospitals, Payment Error Rate Measurement regulation, the Medicaid Integrity Program and other changes in reporting information to the Centers for Medicare and Medicaid Services – our federal oversight Agency and alleged partner.

Thanks to the efforts of our Congressional delegation and many others, we were able to hold off implementation of regulatory changes that would have totally destroyed our program. However, these moratoria will expire before long and these ominous issues will come before us again.

These requirements are on top of other unfunded federal mandates through the years that have added millions to our budget and severely limited our flexibility to manage the program. Some of these previous mandates are the Pryor Amendment of 1990 which requires coverage of virtually all drugs, the mandated coverage for Medicare recipients or more recently, implementation of the HIPAA regulation and use of a National Provider Identifier number.

Before 1990, Medicaid recipients were eligible only for drugs on a formulary, or list of approved drugs. That year, our drug cost was $60 million. Now virtually all drugs are covered and in Fiscal Year 2007, the cost of drugs to the Agency was $409 million even with aggressive management efforts such as a preferred drug list, prior authorization program and other controls.

There was a bright spot last year. The FMAP, the federal medical assistance percentage, or matching rate, improved slightly, from 67.62 percent to 67.98 percent, easing our budget burden by an estimated 13.8 million state dollars. This rate had been declining, so that was very welcome news.

In addition, Congress is debating and President-elect Obama is supporting significant assistance to states by increasing the FMAP in the stimulus bill. This holds great potential for our state because every 1 percent increase in the FMAP provides $38 million

additional dollars to the state, $31 million directly to the Medicaid Agency, and $7 million to other state agencies.

As frustrating as it is for all of us, there are still some unknowns even at this stage of budget preparation for Fiscal Year 2010. The current budget crisis affecting the state has demanded our immediate attention as we work with the Finance Department and Governor Riley to effect a 10 percent reduction in our budget for Fiscal Year 2009. This has not yet been finalized.

Because of changes in our Fiscal Year 2009 budget, we do not yet have a Fiscal Year 2010 budget prepared to discuss at this time. We do know that if current trends continue, even more difficult decisions lie ahead as we look critically at how to keep a bare-bones program in compliance with federal law and regulations. I think Representative Patricia Todd hit the bull's eye yesterday when she said it was unfair for the Governor or any Department head to come before you with an unrealistic budget, and in essence ask you to cut it and take the hit from the public. The enormity of the Medicaid budget will require some very hard decisions and once Governor Riley prepares his final budget, I will be able to discuss our budget in detail.

Another nagging frustration is that the intense negotiations with CMS for over a year are still on-going. These negotiations have centered around what can be included or excluded in the calculation of certified public expenditures. Simply put, the federal government has changed the rules on how hospitals calculate costs, particularly in how they define uncompensated care. I deeply appreciate the leadership Governor Riley has demonstrated in these high level negotiations. We remain optimistic that an acceptable solution can be found. Given the sensitivity of these negotiations and the on-going discussions between Governor Riley and Secretary Leavitt, our attorneys have asked that we not comment on this issue.

All of us at the Medicaid Agency appreciate the support we receive from the Governor, the Congressional delegation and members of this Legislature. Like you, we too would

like to expand Medicaid, increase services and insure that every Alabamian has access to a full range of health care services, especially in these difficult economic times.

It is possible that state and federal governments can no longer afford the level of Medicaid spending than some in society have become dependent on. Hard choices will have to be made on how current funds will be used in the face of decreased revenues.

At the same time, it is critically important that all participants in the health care arena – providers, insurers, employers and employees -- be at the table when we talk about covering the uninsured. While Medicaid is important it is but one component in the health care system.

I thank you for your confidence in the Medicaid Agency's staff and our collective ability to operate a program that focuses first and foremost on the people we serve, and that uses every tax dollar as efficiently as possible while following the federal rules and regulations under which we must operate.

Thank you very much for your time. I would be glad to answer any questions you may have.